

ANNEX V

Harmonization Good Practices In Brief

(Summary of OECD/DAC “Harmonizing Donor Practices for Effective Aid Delivery – Good Practice Papers” Feb 2003)

Overview

The 2002 UN Monterrey Conference on Financing for Development highlighted the importance of building partnerships among donors and developing countries as a means of making more effective progress towards the Millennium Development Goals. It specifically called on development co-operation agencies to intensify their efforts to:

Harmonise their operational procedures at the highest standard so as to reduce transaction costs and make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the recipient country.

In January 2001, the OECD Development Assistance Committee (DAC) set up a special Task Force on Donor Practices, involving its members and representatives of sixteen developing countries, with a two year mandate to look at how aid can be delivered more effectively through simplifying and harmonizing donor procedures. The work of the Task Force included an extensive consultation survey to identify the priorities and perspectives of developing countries on the harmonization of donor practices, as well as a risk study. This document summarizes the good practice findings of the Task Force in six areas. These good practices were endorsed by the High Level Forum on Harmonisation, in Rome in February 2003.

Good Practices

The Task Force identified three broad functional areas for good practices:

- **Good practices between donors and partner governments** – can include greater reliance on partner government systems for administering aid, and can encourage sharing of objectives and clearer expectations, and more predictable and transparent aid flows.
- **Good practices between donor agencies** – can prevent unnecessary duplication of work, reducing the administrative burden on partner governments, and can improve the transparency, accountability, understanding and trust between donors.
- **Good practices within individual donor systems** – include changes donors can make to their own systems and culture in order to strengthen the capacity and ownership of partners, and to reduce the cost of managing aid.

Where these good practices are applied there should be monitorable changes in aid delivery. To this end, the Task Force developed indicators that enable partners and donors to chart progress towards more effective partnerships.

Good practices are a point of reference rather than a matter of prescription for all development agencies, in all countries, at all times. Adapting good practices to the different circumstances of different countries and their individual poverty reduction strategies requires greater flexibility in donor policies and procedures to accommodate varying institutional capacities, traditions and partnership histories.

Specific good practices can be summarized as follows:

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1. Donor Co-operation

- Donors prepare their country programmes in collaboration with partner governments to ensure consistency with nationally owned poverty reduction strategy papers and share their plans with key stakeholders.
- Donors programme aid over a multi-year timeframe to the extent possible, agree on common performance indicators and review processes with partner countries, and provide full information on aid flows.
- Donors providing budget support agree on a common conditionality framework based on the partner country's poverty reduction strategy, ensuring that the timing of their commitments and disbursements and their review processes are aligned with the partner government cycles. Any concerns that should arise are managed through a clear open process and aid suspended within the current financial year only in exceptional circumstances.
- Donors consult with partner governments and share information about joint donor-donor working. Country specific common procedures are negotiated in consultation with partner governments. Common global procedures are pursued only where this does not undermine the adoption of partner country systems.
- Donors encourage collaborative and flexible behaviour through top-level messages, and in the way staff are managed. Procedures are reviewed regularly. Where more than one agency of a donor is active in a country, coherence is achieved and roles and responsibilities are made clear to all key stakeholders.

2. Country Analytic Work/ Preparation of Projects and Programmes

- Donors collaborate with each other and with partner countries in identifying whether any new diagnostic tools are required, how to develop them and how to rationalise the existing stock.
- Partner countries lead in planning the key analytical work that is required in a specific country. Donors, where possible, rely on a partner country's analytical work. Donors co-ordinate their work to alleviate the burden on the partner country and work closely with partner countries to enhance ownership of the analysis and to develop partner country managerial capacity.
- Donors undertake analytical work jointly or rely on the work of the partner country or other donors.
- Donors ensure their analytic work is put into accessible and readable form, is openly available and is widely disseminated, consistent with their disclosure policies.
- Donors ensure consistency of their proposed operations with the partner government's poverty reduction strategy. In designing an operation, donors are flexible in their use of documentation and seek opportunities to involve partner countries in ways that build their capacity.

3. Measuring Performance in Public Financial Management

- Diagnostic reviews should be planned and conducted, and performance targets for public financial management should be agreed, in the context of a government-led strategy for improving the overall management of partner country public finances.
- Donors should avoid carrying out diagnostic reviews when similar work of appropriate quality is available from others.
- Donors and partner governments should share information on their plans to carry out diagnostic reviews, including proposed missions. The aim should be to reach agreement on the roles of the government and donors in each review.
- Reviews should be conducted in an open and participatory manner, and their results shared widely.
- Donors should support work on the development of a robust performance measurement framework for public financial management. The framework should build on elements that are already in place, ensuring that developing country conditions and voice are appropriately

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reflected. Where available, existing international standards, codes and approaches should guide the formulation of country-specific performance targets.

4. Reporting and Monitoring

- Donors should work with partners to rely and build on partner countries' reporting and monitoring systems.
- Where partner systems do not provide appropriate information, donors should work with partner countries to improve them according to a nationally led and clearly defined national strategy for developing and strengthening these systems.
- Donors should avoid creating parallel reporting & monitoring systems and undermine the sustained capacity of partner countries to provide quality information that meets their own requirements.
- Donors co-financing a discrete set of activities – project, sector, or budget support – should work towards agreeing, in consultation with partner countries, common formats, content and frequency for a single periodic report that meets the needs of all partners. The reports should cover all of the activities in the defined area, and meet the information needs of key stakeholders in the country as well as individual donors.
- In addition to alignment with government systems, and co-ordinating among donors, it is important that donors also simplify, whenever possible, their own reporting requirements in order to help alleviate the burden on partner government systems.
- Donors should seek to reduce the number of donor missions and reviews by ensuring that such missions and reviews are rooted in a mutually understood need to facilitate learning and comply with accountability purposes.

5. Financial Reporting and Auditing

- Donors supporting a specific project should agree common financial reports that meet the needs of both the country authorities and donors.
- Donors should accept the financial reports and audit arrangements of partner countries where these have been conducted in accordance with acceptable audit standards. Where weaknesses are identified, donors should support appropriate capacity building measures.
- Financial reports should be prepared in accordance with acceptable accounting standards, and should show all sources of funds, as well as expenditures against a classification system that is responsive to the project's objectives. Donors should make information available to partner country governments on transactions financed on their behalf to allow all resources to be fully accounted for.
- Where common financial reports have been agreed, donors should agree on common auditing arrangements. These include common terms of reference for the auditors, agreement on the criteria for the selection of the auditor, dates for receipt of audit reports, and arrangements for following up audit findings.
- Audits should be carried out in accordance with acceptable auditing standards. Standards issued by the International Organization of Supreme Audit Institutions or by the International Federation of Accountants are acceptable for this purpose. National auditing standards that are considered consistent in all material respects with either of the above standards are also considered acceptable.
- Donors should accept partner country financial reports and audit arrangements when they have been prepared in accordance with acceptable accounting standards, and show all sources of funds. Information on transactions financed by donors should be made available to partner countries to allow all resources to be fully accounted for.

6. Delegated Co-operation

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- Partner governments are consulted on a delegation co-operation arrangement where they are affected and the details shared with them.
- Donors involved in a delegated co-operation arrangement agree on its objectives.
- The extent of assessment by donors of the policies and procedures of the lead donor is only as detailed as is necessary to ensure sufficient trust.
- Parties to a delegated co-operation agreement are as flexible as their external constraints permit in adopting partner country procedures, or failing that, simple common procedures.
- Where one donor channels funds through another, disbursements, accounting and auditing arrangements are explicitly specified.
- Donors adhere to the roles and procedures set out in an arrangement.

For the complete OECD/DAC document *Harmonizing Donor Practices for Effective Aid Delivery – Good Practice Papers*, refer to: <http://webnet1.oecd.org/pdf/M00041000/M00041202.pdf>.

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